



STATE OF WASHINGTON

## ECONOMIC AND REVENUE FORECAST COUNCIL

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March 13, 2006

**TO:** Representative Jim McIntire, Chair  
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Senator Mark Doumit  
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**FROM:** ChangMook Sohn, Executive Director  
Economic and Revenue Forecast Council

**SUBJECT:** MARCH 10, 2006 REVENUE COLLECTION REPORT

General Fund-State (GFS) collections totaled \$798.3 million in the February 11–March 10, 2006 collection period. Revenue growth was very strong and tax payments were again more than expected. Receipts for the current period were \$34.6 million (4.5 percent) above the estimate for the month. Revenue Act taxes (sales, business and occupation, use, and public utility), accounted for the majority of the positive variance (\$32.1 million). Real estate excise tax payments were also higher than expected (\$4.3 million). Most other major taxes were a little less than expected for the month. Although the forecast still believes that slower economic and revenue growth lies ahead, this month's strong performance indicates that for now, a strong labor market continues to trump rising interest rates, high debt burdens and still relatively high energy costs.

Economic news continues to be generally positive. The U.S. economy added 243,000 jobs in February, higher than most economists had expected. This was the second strongest month in the last twelve months, exceeded only by November's gain when employment bounced back strongly after being depressed by the impacts of the hurricanes on the Gulf cost. All sectors grew except manufacturing. Despite the stronger employment numbers the U.S. unemployment rate rose slightly from 4.7 percent in January to 4.8% in February. Other positive news includes the report from the Conference Board that the U.S. Index of Leading Indicators increased 1.1 percent in January. The index has increased three consecutive months and five of the last six months. A little less bullish was the Conference Board's report that their Index of Consumer Confidence declined in 4.8 percent in February. Prior to February, the index had increased for three straight months. At the state level, the job market continues to show exceptional strength. The number of jobs increased in January and the state's unemployment rate dropped to 4.6 percent. The Washington's unemployment rate has not been this low since November 1999.

Revenue Act collections were \$32.1 million higher than expected this month. Tax payments this period primarily reflect January 2006 activity of monthly taxpayers. Revenue Act receipts this month were 11.1 percent higher than a year ago. This was the same as last month and better than the prior two months. Revenue growth continues to significantly exceed income growth and the growth of U.S. retail sales. For the first seven months of fiscal 2006, Revenue Act collections are a remarkable 10.8 percent higher than the year-ago period. Income is 6.8 percent higher and U.S. retail sales are 7.5 percent higher for the same period.

Preliminary information on tax payments by industry for the current period continues to show strong growth across the board. Tax payments by firms in the retail trade and food services sector increased 8.4 percent despite weakness in cars sales. Last month tax payments from firms in the retailing sector increased 10.1 percent. Several retailing categories reported double-digit increases including: building materials and garden stores (+25.2 percent), furniture and home furnishings stores (+13.3 percent), gas stations and convenience stores (+18.1 percent), apparel and accessory retailers (+12.6 percent) and sporting goods, toys, books and music stores (+12.0 percent). Auto dealers, the largest retailing sector, reported only a 1.7 percent increase; last month this sector was up 5.3 percent. Overall, tax payments firms in non-retail trade and food services sectors were 11.4 percent higher than a year ago. Last month this category reported a 12.4 percent increase. Construction remained strong, with tax payment in this sector 19.2 percent higher than a year-ago. Last month this sector reported a 15.6 percent increase. The strength of real estate activity still has a major impact on overall revenue growth. Tax payment of firms in construction and housing related sectors increased 18.5 percent in January compared to 8.0 percent for all other sectors.

Non-Revenue Act General Fund taxes were \$2.2 million above the estimate for the month. Real estate excise tax payments were again higher than anticipated, \$4.3 million more than was expected in the revised February forecast. Liquor taxes were also a little higher than expected this month. Other major taxes were a little less than anticipated for the month. The General Fund portion of cigarette tax receipts were \$762,000 less than the estimate. The state levy was \$577,000 less than expected and the GFS share of the timber excise tax was \$247,000 less than expected.

While there is clear evidence of slowing real estate activity nationally: declining existing home sales and the mortgage rate at a two and a half year high, there is no real sign, as of yet, that there is much slowing in Washington. Real estate payments continue to exceed the forecast. After slowing last month, the pace of real estate activity measured by real estate excise tax payments accelerated in the current period. Taxable real estate activity in the most recent month (closings in January which reflect tax payments to the state in February 2006) were 24.8 percent higher than a year-ago. Last month's activity increased 8.9 percent. While there was some weakness in the number of transactions, the value per transaction remains very strong. For the month, the number of transactions was 6.5 percent below the year-ago level. This is the second straight month that the number of transactions has declined; however, the value per transaction was up 28.7 percent for the month.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$292,000 above the estimate for the month.

The attached Table 1 provides a comparison of collections with the February 2006 forecast for the February 11, 2006 – March 10, 2006 collection period. The variance for the month is virtually the same as the cumulative variance in Table 1 because the monthly estimates based on the February forecast have been adjusted to reflect actual collections through February 10, 2006. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

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Attachments

**TABLE 1**  
**Revenue Collection Report**  
**March 10, 2006 Collections Compared to the February 2006 Forecast**  
**Thousands of Dollars**

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
<b>Feb. 11 - March 10, 2006</b>				
Department of Revenue-Total	\$763,522	\$797,830	\$34,308	4.5%
Revenue Act** (1)	696,194	728,296	32,101	4.6%
Non-Revenue Act(2)	67,328	69,534	2,206	3.3%
Liquor Sales/Liter	9,699	10,054	355	3.7%
Cigarette	3,615	2,846	(769)	-21.3%
Property (State School Levy)	(15,603)	(16,181)	(578)	3.7%
Estate	89	(84)	(173)	NC
Real Estate Excise	56,181	60,500	4,319	7.7%
Timber (state share)	2,496	2,249	(247)	-9.9%
Other	10,850	10,151	(700)	-6.4%
Department of Licensing (2)	212	504	292	137.6%
Lottery (5)	0	0	0	NA
<b>Total General Fund-State***</b>	<b>\$763,735</b>	<b>\$798,334</b>	<b>\$34,599</b>	<b>4.5%</b>
<b>Cumulative Variance Since the February 2006 Forecast (Feb. 11, 2006 - March 10, 2006)</b>				
Department of Revenue-Total	\$763,522	797,841	34,319	4.5%
Revenue Act** (3)	696,194	728,307	32,113	4.6%
Non-Revenue Act(4)	67,328	69,534	2,206	3.3%
Liquor Sales/Liter	9,699	10,054	355	3.7%
Cigarette	3,615	2,853	(762)	-21.1%
Property (State School Levy)	(15,603)	(16,180)	(577)	3.7%
Estate	89	(74)	(163)	NA
Real Estate Excise	56,181	60,472	4,291	7.6%
Timber (state share)	2,496	2,249	(246.8)	-9.9%
Other	10,850	10,160	(690)	-6.4%
Department of Licensing (4)	212	449	237	111.8%
Lottery (5)	0	0	0	NA
<b>Total General Fund-State***</b>	<b>\$763,735</b>	<b>\$798,291</b>	<b>\$34,556</b>	<b>4.5%</b>

1 Collections February 11 - March 10, 2006. Collections primarily reflect January 2006 activity of monthly taxpayers.

2 February, 2006 collections.

3 Cumulative collections, estimates and variance since the Feb. 2006 forecast; (February 11 - March 10, 2006) and revisions to history.

4 Cumulative collections, estimates and variance since the February 2006 forecast; (February 2006) and revisions to history.

5 Lottery transfers to the General Fund

\* Based on the February 2006 economic and revenue forecast.

\*\*The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

\*\*\* Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

**TABLE 2**  
**February 10, 2006 Collection Report - Revised Data**  
**Thousands of Dollars**

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
<b>Jan. 11 - February 10, 2006</b>				
Department of Revenue-Total	\$1,192,130	\$1,192,130	(\$0)	-0.0%
Revenue Act (1)	1,087,301	1,087,301	(0)	-0.0%
Non-Revenue Act(2)	104,829	104,829	(0)	-0.0%
Liquor Sales/Liter	17,239	17,239	(0)	-0.0%
Cigarette	4,088	4,088	(0)	-0.0%
Property (State School Levy)-net	(13,348)	(13,348)	(0)	0.0%
Estate	(1,436)	(1,436)	0	-0.0%
Real Estate Excise	76,187	76,187	(0)	-0.0%
Timber (state share)	0	0	0	NA
Other	22,100	22,100	(0)	-0.0%
Department of Licensing (2)	123	68	(55)	-44.6%
Lottery (2)	0	0	0	NA
Total General Fund-State***	1,192,252	1,192,198	(\$54)	-0.0%

**Cumulative Receipts: November 11 - Feb. 10, 2006 & Revisions to History**

Department of Revenue-Total	\$3,635,007	\$3,635,007	(\$0)	-0.0%
Revenue Act (3)	2,649,179	2,649,179	0	0.0%
Non-Revenue Act(4)	985,828	985,828	(0)	-0.0%
Liquor Sales/Liter	40,866	40,866	(0)	-0.0%
Cigarette	11,997	11,997	0	0.0%
Property (State School Levy)-net after transfer	634,393	634,392	(1)	-0.0%
Estate	352	352	0	0.0%
Real Estate Excise	234,316	234,316	0	0.0%
Timber (state share)	2,681	2,681	0	NA
Other	61,222	61,223	1	0.0%
Department of Licensing (4)	655	600	(55)	-8.4%
Lottery (4)	0	0	0	NA
<b>Total General Fund-State***</b>	<b>\$3,635,662</b>	<b>\$3,635,607</b>	<b>(\$55)</b>	<b>-0.0%</b>

Preliminary. Reported in the February 10, 2006 collection report.

1 Collections Nov. 11 - Feb. 10, 2006. Collections primarily reflect December 2005 business activity of monthly taxpayers, q4, 2005 activity of quarterly filers and calendar 2005 activity of annual filers.

2 January 1-31, 2006 collections.

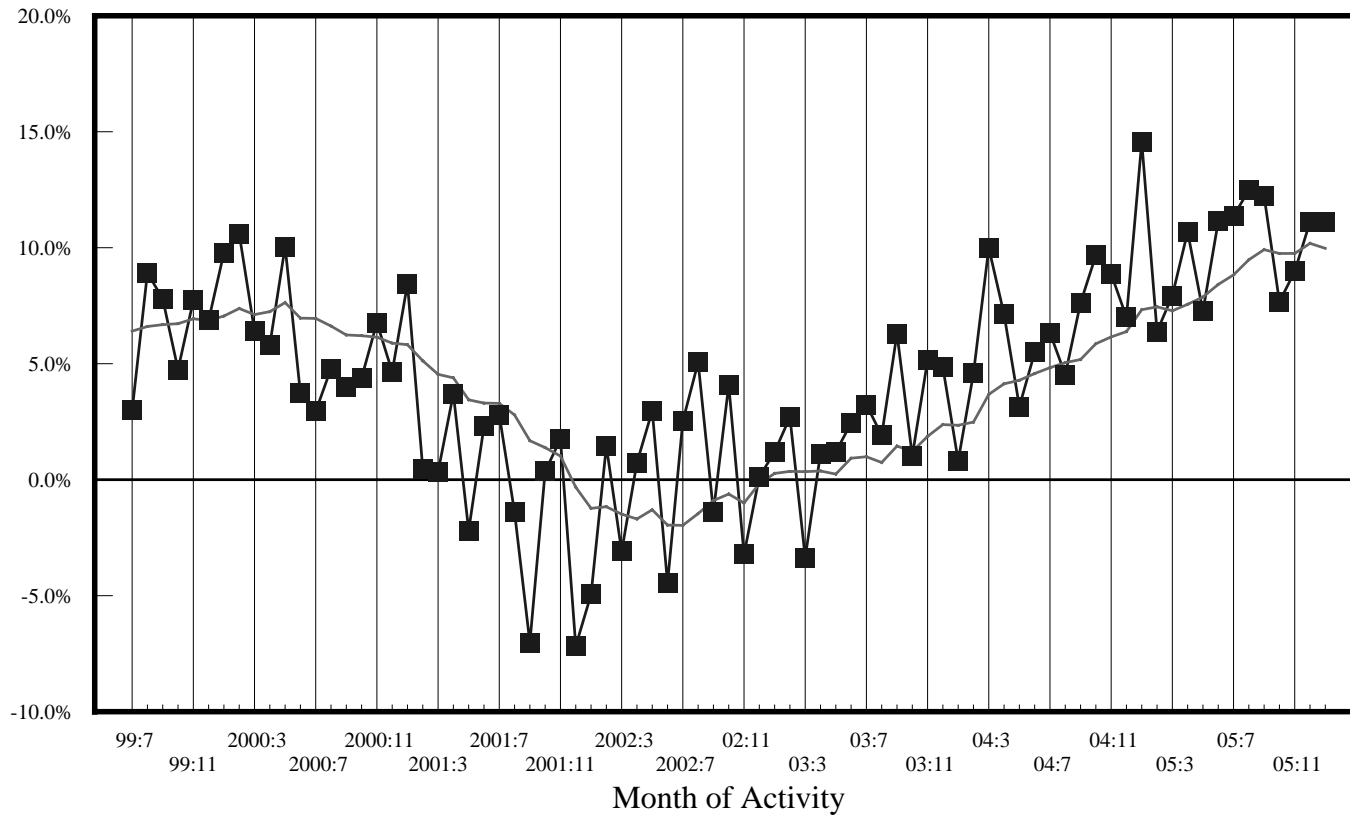
3 Cumulative receipts since the November 2005 forecast: Nov. 11-Feb. 10,2006 & revisions to history.

4 Cumulative receipts since the Nov. 2005 forecast ( December 2005- January 2006) & revisions to history.

\* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

# Revenue Act Net Collections\*

Year-over-Year Percent Change



■ %CH from year-ago month

— %chya (12 month moving average)

\*collections excluding new legislation and special factors